

DIVISION OF ECONOMIC POLICY, RESEARCH AND  
LEGISLATIVE AFFAIRS

ENTERPRISE ZONES

ANNUAL STATUS REPORT  
CALENDAR YEAR 2007  
Economic Development Article

SECTION 5-709

Submitted by:

Maryland Department of Business and Economic  
Development

December 2008

# MARYLAND ENTERPRISE ZONE PROGRAM

Maryland's Enterprise Zone program is a joint effort between the State and local governments to provide tax incentives to businesses and property-owners located in some of the State's most economically distressed communities. The program was created in 1982 with two zones in two jurisdictions and has grown to include 28 zones in 14 jurisdictions. In accordance with Chapter 305, Acts of 2001, the Department of Business and Economic Development (DBED) has reviewed the effectiveness of the State's Enterprise Zone tax credit program and prepared this report. DBED wishes to acknowledge the efforts of the Comptroller of the Treasury, the State Department of Assessment and Taxation, and county and municipal enterprise zone administrators for providing valuable information for this report.

As of December 2008, there are 28 enterprise zones across the state and two focus areas. The enterprise zones are located throughout the state, with ten state-designated zones in Western Maryland, nine on the Eastern Shore, four in Southern and Suburban Maryland, and five in Central Maryland (Table 1).

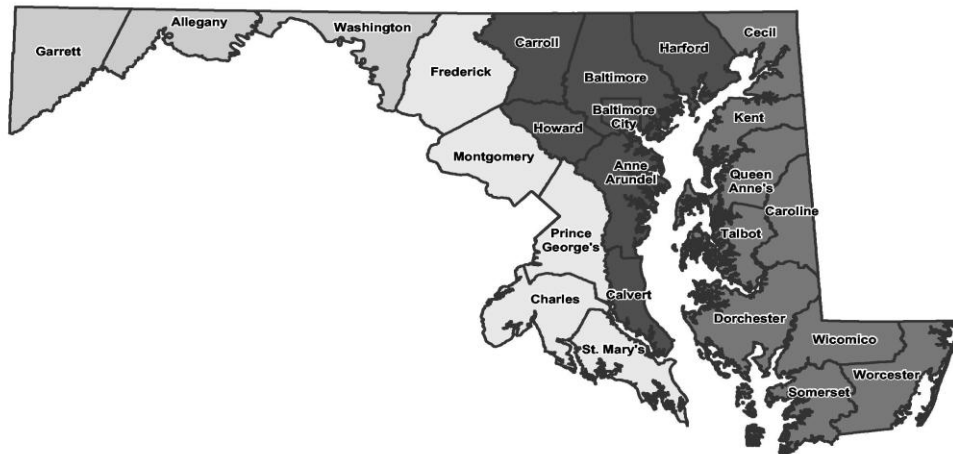


Table 1: Enterprise Zones		
County	Enterprise Zone	Expires
Allegany	Rt. 220 South-Allegany County	12/14/2009
	Cumberland-Allegany County	6/14/2012
	Frostburg-Allegany County	12/14/2014
Baltimore City	Baltimore City	6/14/2012
Baltimore County	North Point-Baltimore County	12/14/2015
	Southwest Baltimore County	12/14/2013
Cecil	Cecil County	12/14/2013
Dorchester	Hurlock Industrial Park	12/14/2009
	Cambridge-Dorchester County	6/14/2013
Garrett	Southern Garrett Industrial Park	12/14/2016
	Northern Garrett Industrial Park	12/14/2018
	Central Garrett Industrial Park	6/14/2013
	Keyser's Ridge Business Park	6/14/2014
Harford	Aberdeen/Havre de Grace	6/14/2016
	Edgewood/Harford County	12/14/2014
Montgomery	Gaithersburg-Montgomery County	6-14-2018
	Takoma Park	6/14/2013
Prince George's	Prince Georges County	12/14/2009
Somerset	Crisfield-Somerset County	6/14/2016
	Princess Anne-Somerset County	12/14/2013
St. Mary's	Lexington Park	12/14/2010
Washington	Town of Hancock	12/14/2015
	Hagerstown-Washington County	12/14/2012
	Washington County Airport	6/14/2014
Wicomico	Salisbury-Wicomico County	12/14/2012
	Fruitland-Wicomico County	6/14/2015
Worcester	Berlin-Worcester County	12/14/2016
	Pocomoke City Enterprise Zone	12/14/2011
Expired Zones		
Allegany	Rocky Gap State Park/Allegany County	12/14/2003
Calvert	Calvert Industrial Park	6/14/2003
Montgomery	Silver Spring	12/14/2006
Washington	Washington County Interstate 81 Park	12/14/2001
Worcester	Snow Hill/Worcester County	6/14/2005
St. Mary's	Lexington Park (Focus Area designation only)	12/15/2005
Montgomery	Wheaton	12/14/2008
Montgomery	Tacoma Park (Focus Area only)	6-14-2008
Focus Areas		
Baltimore City	Baltimore City	6/14/2010
Prince George's	Prince George's County	12/14/2009

## **Real Property and Income Tax Credit Usage**

The primary benefits to businesses that are located within a Maryland enterprise zone are eligibility for local property tax credits and state income tax credits. The General Assembly requires the Department of Business and Economic Development (DBED) and the Comptroller of Maryland to report annually beginning December 15, 2002 on the effectiveness of the enterprise zone tax credits. Specifically, the Enterprise Zone statute requires DBED and the Comptroller to assess the effectiveness of tax credits provided to businesses in enterprise zones, including the number and amount of credits granted annually and the success of the tax credits in attracting and retaining businesses within enterprise zones.

This report addresses the number and amount of credits granted annually for each credit followed by a discussion of the information provided by county and/ or municipal administrators on how the credits are used to attract and retain businesses.

### ***Property Tax Credits***

Eligible businesses in an enterprise zone may claim a ten-year credit against local real property taxes on a portion of real property improvements. The credit is 80 percent of the assessment increase during the first five years. The credit then decreases 10 percent annually thereafter to 30 percent in the tenth year.

The State Department of Assessments and Taxation (SDAT) reports on the real property investment made in the enterprise zone, the number of businesses receiving property tax credits and the State's one-half reimbursement back to the local jurisdictions for the property taxes abated as a result of the credits. SDAT reports that 753 businesses will receive property tax credits totaling \$26.3 million in FY 2010. The credits are based on real property investments made by those businesses totaling \$1,945 million. This translates to an average capital investment of \$2.6 million per business. The real property investment will cost the State \$13.1 million to reimburse the localities, assuming the State's full obligation is met.

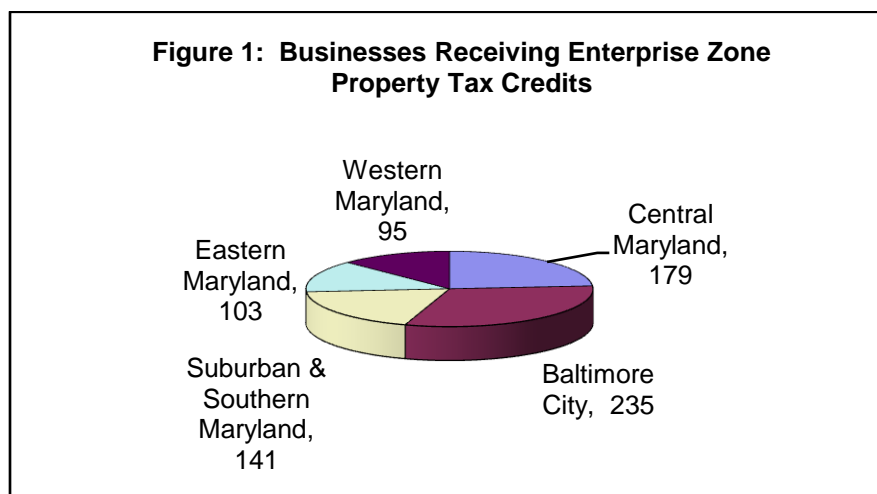
Over the last five years the amount of property taxes granted to businesses has increased 147 percent with the biggest percentage increase coming between FY 2006 and FY 2007. During the last five years approximately \$789 million was invested in state enterprise zones. A consequence of this activity is that the State's reimbursement to the counties has also increased during this time. The State's reimbursement climbed from \$5.8 million in FY 2006 to \$13.1 million in FY 2010. The following chart compares the capital investment by county during this time.

<b>Table 2: Capital Investment Made in Enterprise Zones</b>							
<b>County</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>Percent Change FY 2010-2009</b>	<b>Percent Change FY 2010-2006</b>
Allegany	37,681,778	40,594,813	36,531,913	38,669,575	43,280,775	11.9%	14.86%
Baltimore City	175,127,039	302,758,851	315,676,051	403,035,304	788,230,308	95.6%	350.09%
Baltimore County	100,172,234	127,917,108	160,657,721	113,562,211	107,676,817	-5.2%	7.49%
Calvert	10,998,315	12,568,055	14,865,772	12,953,880	12,553,543	-3.1%	14.14%
Cecil	46,232,895	145,092,988	159,884,356	199,088,464	146,318,141	-26.5%	216.48%
Dorchester	117,218,981	36,099,199	23,912,667	15,073,820	13,354,446	-11.4%	-88.61%
Garrett	6,262,831	6,550,074	8,659,065	21,393,945	17,914,080	-16.3%	186.04%
Harford	305,365,245	334,214,782	404,536,606	297,375,700	272,771,225	-8.3%	-10.67%
Montgomery	110,837,983	379,327,375	357,178,177	380,296,256	283,512,125	-25.4%	155.79%
Prince George's	57,700,849	73,499,419	100,078,771	128,255,209	122,565,070	-4.4%	112.41%
St. Mary's	6,080,990	6,223,868	6,361,968	12,119,840	14,345,061	18.4%	135.90%
Somerset	575,856	494,132	735,940	396,713	1,132,078	185.4%	96.59%
Washington	164,596,595	169,037,629	174,352,141	89,622,175	102,207,737	14.0%	-37.90%
Wicomico	9,451,570	9,988,984	8,481,917	11,031,588	17,940,075	62.6%	89.81%
Worcester	8,355,190	9,801,116	5,866,190	2,229,325	2,025,857	-9.1%	-75.75%
<b>Maryland</b>	<b>1,156,658,351</b>	<b>1,654,168,393</b>	<b>1,777,779,255</b>	<b>1,725,104,005</b>	<b>1,945,827,338</b>	<b>12.8%</b>	<b>68.23%</b>

Source: SDAT and DBED

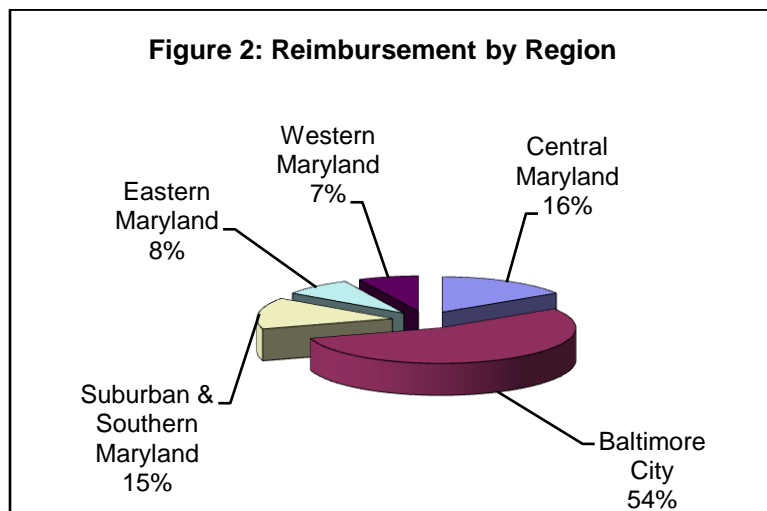
As Table 2 shows the amount of capital investment increased 68 percent over this time period, with the biggest increases occurring between FY 2006 and FY 2007. The largest dollar increases in capital investment were in Baltimore City, Cecil and Montgomery Counties.

There is considerable variation by region in the usage of the program. This variance is attributable to three factors: 1) eligibility for the program—poorer areas can more readily meet the eligibility criterion for participation in the program; 2) political choice to participate in the program—the governing bodies of counties and their municipalities have sole authority to request creation of an enterprise zone and sole discretion to establish local standards that govern access by businesses to the program's credits; and 3) private sector business expansion—the enterprise zone has no costs unless businesses make new investments in real property. In FY 2010, 753 businesses across the State received tax credits for investments in enterprise zones. Figure 1 shows the location of these businesses by region.



Source: SDAT and DBED

Figure 2 shows the distribution of property tax credit reimbursements by region for the upcoming fiscal year (FY 2010). The largest share of reimbursement will go to Baltimore City, which will receive \$7.2 million or 54 percent. This is followed by Central Maryland (\$2.1 million), Suburban and Southern Maryland (\$1.9 million), the Eastern Shore (\$1.1 million) and Western Maryland (\$0.9 million).



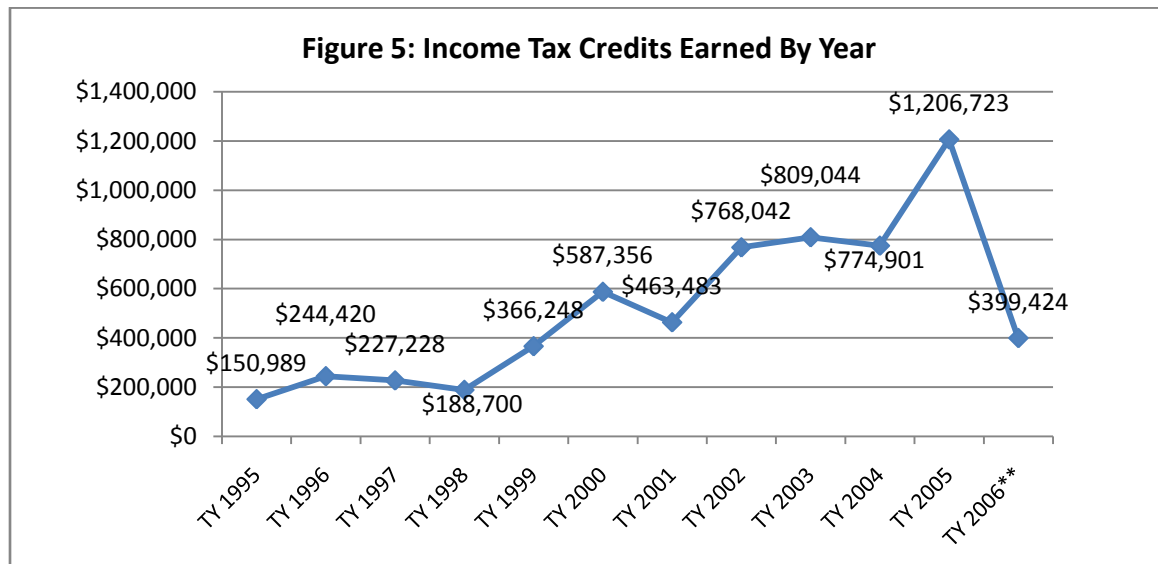
Source: SDAT and DBED

### ***Income Tax Credits***

Eligible businesses in an enterprise zone may claim one-year or three-year credits for wages paid to new employees in new positions. The general credit is a one-time \$1,000 credit per new worker. For economically disadvantaged employees, the credit

increases to a total of \$6,000 per worker distributed over three years. Businesses claim the enterprise zone income tax credits on the 500CR form when they submit their business or individual income tax returns to the Comptroller of Maryland. The Comptroller collects and compiles this tax return data.

The Comptroller has provided consistent tax return data on the enterprise zone income tax credits from tax years 1995 to 2006. As Figure 5 shows, the usage of the credits varies from year-to-year but has generally been trending upward over the last five years. Businesses in enterprise zones have earned a total of \$6.2 million in income credits over this time period.



\*\* Data is incomplete for the TY 2006  
Source: Comptroller and DBED

Enterprise zone administrators generally agree that the enterprise zone real property tax credit is the most useful and effective enterprise zone credit available to businesses that locate or expand in an enterprise zone. Counties that have few other incentives to offer find that the property tax credits are very important. Several counties also noted that the credits are useful in retaining companies in the zone. Companies considering an expansion often decide to expand within the zone rather than move to another location outside of the zone.

The Employment tax credits are perceived as secondary in importance in attracting businesses. Most of the businesses are small employers who do not always take advantage of the incentive due to wages paid and the perceived paperwork involved with obtaining the credits. Administrators report a large degree of interest in the credits and find them useful in marketing their areas to prospective businesses, although the importance of the credits in a firm's decision to locate varies from zone-to-zone.

## **Impact of Property and Income Tax Credits**

*Focus Holabird, LLC decided to purchase 6611 Chandlery Street property from the City of Baltimore, they decided to move ahead in large part because the Property Tax Credits were available to them for the new construction at the site. When the property owners found that they would need to invest considerable amount of resources cleaning the site, the Enterprise Zone credits helped to make their investment worthwhile and helped the City transform an underutilized vacant property into office and warehouse space. Focus Holabird has completed \$1.15 million of new construction on the site.*

### **Baltimore City Enterprise Zone**

*The Enterprise Zone was an important incentive to Hospital Billing and Collection Services, as the company chose Salisbury, Maryland as the location for a “back-office” operation expected to employ nearly two hundred people. The company is in the process of renovating a thirty thousand square foot facility located in NorthGate Business Park.*

### **Salisbury-Wicomico County Enterprise Zone**

*Superfos Packaging expanded their manufacturing facility last year. Superfos could have moved the increased production to other facilities; however, they decided to expand here. The real property tax discounts are significant on this new construction.*

### **Cumberland Gateway Enterprise Zone**

*Total Biz Fulfillment’s main facility is located in the Northern Garrett Enterprise Zone. Since opening that facility in 1993, Total Biz has expanded three times. Having no additional room for expansion in the Northern Garrett Enterprise Zone, Total Biz purchased acreage in the Southern Garrett Enterprise Zone to allow for a fourth expansion. The timetable allows for completion of an additional 225,000 square feet in warehouse space incrementally over the next 6 years. The first phase (a 60,000-square foot warehouse facility) is complete. Total Biz expects to hire 25 new employees within the next 12 to 18 months for the new warehouse facility. Once expansion is totally complete, Total Biz expects to have an additional 125 employees on the payroll. Enterprise Zone incentives, specifically the property tax and job creation tax credits, were instrumental in this expansion.*

### **Southern Garrett Enterprise Zone**

*Due to the need for space expansion, one of our local manufacturers in Joppa was considering relocating outside of the county and possibly out of state (they have another location in the Midwest). However, after discussing this with OED and being advised about potential real property and income tax credits for additional space and new jobs, the company negotiated with its landlord and has remained at its current site in Maryland.*

### **Edgewood-Joppa, Harford County Enterprise Zone**

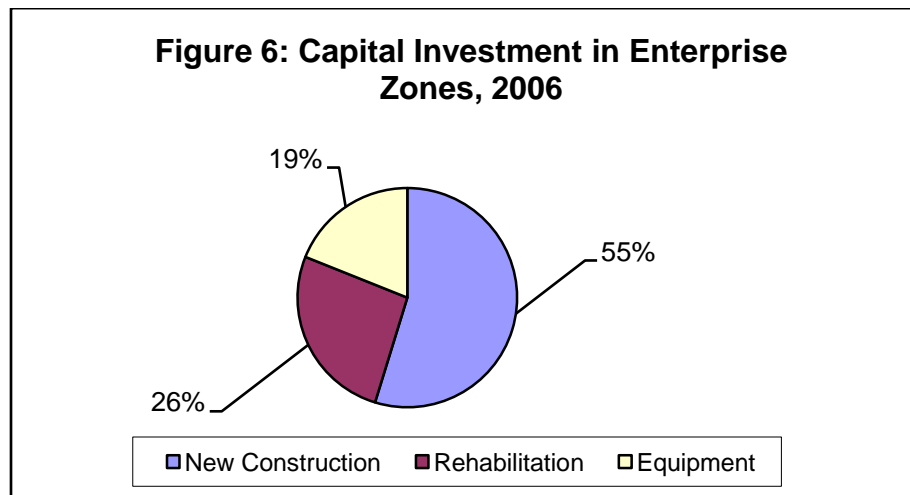
*The Hollins Ferry Road corridor in the Southwest zone has been the scene of a remarkable transformation over the past three years. A number of major projects have completely changed the appearance of this formerly underutilized stretch of dilapidated older industrial buildings. Several of the projects were completed this past year.*

### **Baltimore County Southwest Enterprise Zone**



## Business Activity in the Enterprise Zones

In addition to the information from SDAT and the Comptroller on the number and amount of credits granted annually, the local enterprise zone administrator annual reports provide information on the activity of the businesses in their enterprise zones and on their experience in using the credits. Local zone administrators reported that they certified 170 new businesses for the property and/ or income tax credits in 2007. Based on the administrator reports, businesses created over 14,000 new jobs. Businesses also reported on the amount of capital investment in new construction, rehabilitation and equipment. According to the reports, in 2007 businesses invested approximately \$428 million of which 55 percent was in new construction, 26 percent for rehabilitation and 19 percent on equipment.



It is difficult to compare information on the amount of investment or jobs on a year-to-year basis because the information is, in any year, only reflective of the businesses that provided information to the enterprise zone administrators and does not reflect the activity of all businesses in the all of the zones.

### ***Enterprise Zone Impacts***

An important goal of the enterprise zone program is to improve the communities in and around the zone. Enterprise zone administrators reported their observations on the impact of the enterprise zone on their community. In some cases the zones have only been designated for a few years and have not had enough time to impact their community, while the communities in and around other zones have experienced significant improvement. Some zones have seen very little improvement to the communities surrounding their zone.

## **Enterprise Zone Impacts**

*The enterprise zone has had a positive impact on the redevelopment of Westfield Wheaton Mall, which has made over \$140 million in capital improvements. In addition to reducing its own property tax liability, the enterprise zone affords Westfield the opportunity to pass the property tax credits through to potential tenants, reducing their operating costs at the Wheaton Mall.*

*Bozzuto Development and Spaulding & Slye Investments are proposing a 500-600,000 square foot mixed-use project, Metro Plaza at Wheaton square. The developers emphasize that enterprise zone tax credits are a key component in marketing the project to prospective tenants, providing attractive lease rates for newly delivered, Class A office space.*

### **Wheaton-Montgomery County Enterprise Zone**

*Revitalization continues in downtown Hagerstown. Bowman Development purchased a rundown building from the City of Hagerstown. Bowman's project will be a mixed-use property with offices, restaurant with sidewalk dining and high-end apartments. The Enterprise Zone assisted Bowman Development to make another commitment to downtown Hagerstown.*

### **Hagerstown-Washington County Enterprise Zone**

*Much of the Enterprise Zone encompasses Salisbury's original industrial Park, Northwood. As Northwood is near capacity, the zone was recently expanded to include Salisbury's new industrial park, Westwood. Several new industrial developments are under construction as a result of the expanded zone and availability of industrial-zoned land. The result is more jobs, industrial diversification and an enhanced tax base for the community-at-large.*

### **Salisbury-Wicomico County Enterprise Zone**

*The impact of the Enterprise Zones incentives increases the economic viability of the neighborhood through decreased commercial/industrial vacancy. In interviewing the 40 companies which were certified in 2007, many companies repeated that they chose to invest in areas that they would not normally have considered investing in because of the Enterprise Zone credits in the area. In addition, there were other businesses in 2007 that were already in the Enterprise Zone who were looking to expand and decided to stay in the Zone to do their expansion because of the property tax credits available to them. The viability of businesses already in the area which continue to remain because of the Enterprise Zone credits has a large impact on the stability of an area and prevents further decline and vacancy in an area. Baltimore Pho is a clear example of how one new Enterprise Zone certified restaurant has been able to impact its surrounding community. Baltimore Pho opened in the Hollins Market area and became Enterprise Zone certified in 2007. Prior to Baltimore Pho, the property's last prior use was a beloved restaurant which was there for a long time before it went out of business. The property, before Baltimore Pho had been vacant for 10 years. In that 10 year vacancy, many of the surrounding businesses left the area and the residential neighborhood surrounding the business area also declined. Fortunately, a developer began purchasing property in the area and sold the properties only to businesses with strong business plans and investment who were interested in making a substantial contribution to the area. Pantanal Properties, Inc. spent \$140,000 on the rehab of the building and invested \$40,000 in new equipment.*

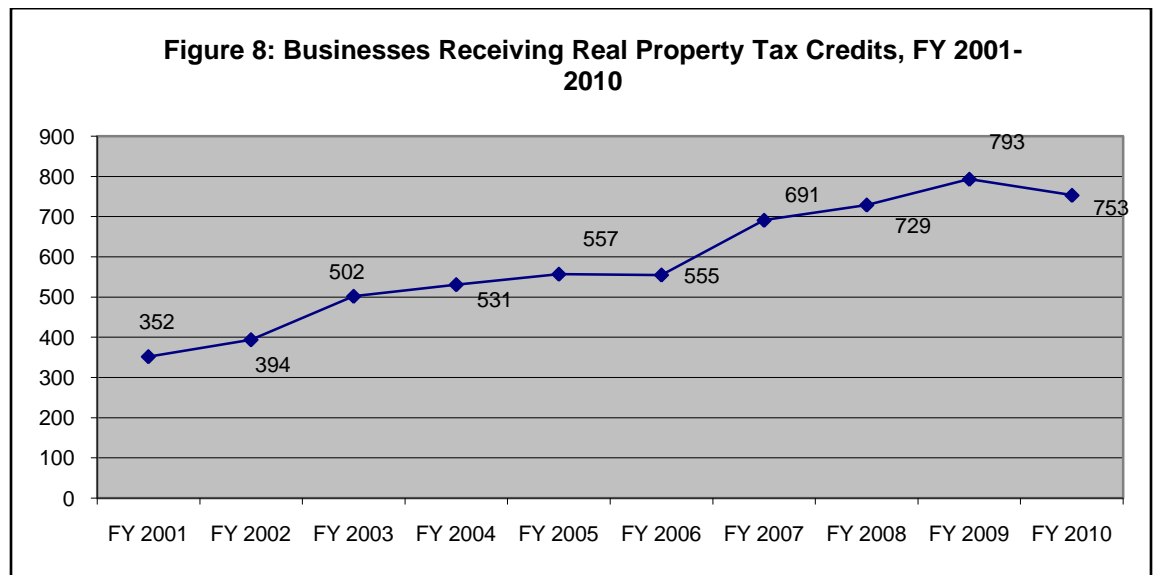
*Baltimore Pho became one of the first of such businesses willing to invest in the Hollins Market area. Today they are an upscale Vietnamese restaurant, acclaimed by the Baltimore Sun, Examiner and Baltimore Magazine. Baltimore Pho's clientele draws from all over the city and because of its appeal, the restaurant is attracting more growth and development. The Baltimore Development Corporation predicts that in 2-3 years the stability of the residential community will also increase.*

### **Baltimore City Enterprise Zone**

### ***Growth In Enterprise Zone Activity***

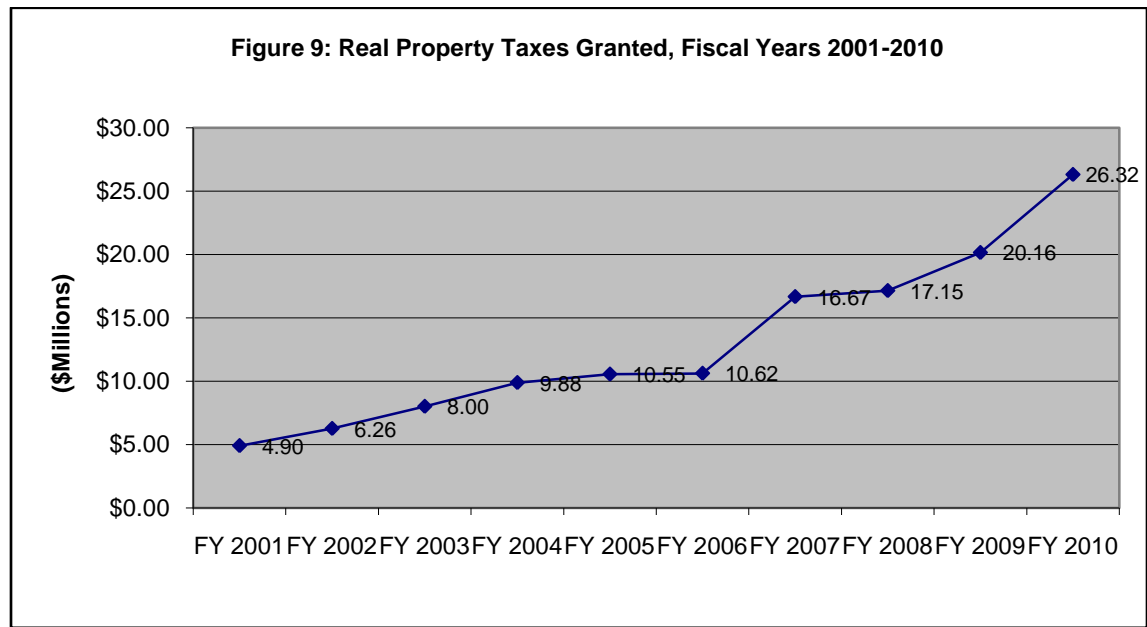
The Enterprise Zone Program has been in existence for over twenty-five years and since FY 1985 has grown from two businesses in two zones receiving property tax credits to 753 businesses in FY 2010. Qualified businesses in an enterprise zone receive property tax credits for a 10-year period. Therefore, a business receiving a real property tax credit in 1996, if it remained in operation, was still receiving some credit in 2006. The number of businesses investing began to grow beginning in FY 1999 reflecting both a stronger economy and more opportunities for investment as the number of zones also grew during this time. In addition, in recent years, the trend has been for jurisdictions to apply to expand their existing zones. Bigger zones also mean more opportunities for businesses to apply for the credits.

The number of businesses receiving real property tax credits has generally increased from year-to-year. Figure 8 illustrates the number of businesses receiving real property tax credits on an annual basis over the last ten years. The number of businesses has more than doubled during this time.



Source: SDAT and DBED

As investment has grown, so has the amount of property tax credits granted to businesses in the zones. Real property taxes abated have grown from approximately \$58,000 in the first year to over \$26 million. The amount of property tax credits granted shows a similar trend over the time period analyzed. From FY 2001 to FY 2010, the amount of property tax credits granted increased from \$4.8 million to \$26.3 million (Figure 9).



Source: SDAT and DBED

In general, the real property tax credit data provides information on the amount of credits granted and the usage of the credits. The number of businesses participating and the amount of eligible investment has generally grown over the life of the program, but especially in the last several years and significantly since FY 2006.